be used through June 30, 1991 and the most recently published DRI Health Care Costs All Urban All Items South Region Index quarterly indices for July 1, 1991 and thereafter. The rate of increase in the FCCI Index, for purposes of indexing FRVS rates, shall be limited to a 3 percent semi-annual increase; however, during semesters when the increase in the index is greater than 3 percent, a credit, calculated as the actual increase minus 3 percent, shall be carried forward for future periods and added to the increase in the index, up to a maximum of 3 percent, when the actual future increases in the index are less than 3 percent. For example, if the increase in the index is 4 percent in Period 1, 3 percent shall be used and a credit of 1 percent shall be carried forward; then, if the increase in the index is 2 percent in Period 2, a 3 percent rate of indexing shall be used, by adding the 1 percent credit to the actual 2 percent increase. If more than 2 percent credits were available, a maximum of 3 percent rate of indexing would be used, and the remaining credits would again be carried forward to future periods. The credits shall carry forward indefinitely until they are reduced by applying them to periods during which the rate of increase in the FCCI Index is less than 3 percent. The credits shall accrue by individual facility, so that any facility entering the program in a period where the increase in the FCCI Index is less than 3 percent shall not benefit from credits accrued during prior periods by other facilities.

c. The portion of the FCCI Index increase used to index asset valuation each year shall vary with the number of years the facility participated in the program since January 1, 1972. For the first 10 years of participation, a straight-line increasing portion of the allowable increase in the index shall be used: 1/10 in year 1, 2/10 in year 2, 3/10 in year 3, up to 10/10 in year 10. The total percent increase allowed for any 6-month rate semester shall not exceed 3 percent. For the second 10 years, the unadjusted index increase shall be used, subject to a 3-percent semi-annual limitation. For the next 20 years, years 20 through 40, a straight-line decreasing portion of the allowable increase in the index shall be used subject to the 3-percent limit per rate semester: 95 percent in year 21, 90 percent in year 22, 85 percent in year 23, down to 0 percent in year 40. Thus, after 39 years of participation in the program, no further indexing shall be given to a facility.

d. For rate semesters beginning on or after January 1, 1986, an adjustment shall be made in indexing for failure of a licensure re- inspection and for low Medicaid utilization.

(1) Any facility which receives a conditional licensure rating and upon re inspection has not corrected deficiencies as required by the AHCA Office of Licensure and Certification, shall receive no indexing in the FRVS rate for the 6-month rate period subsequent to the re inspection.

(2) Medicaid utilization shall be calculated as Medicaid patient days divided by total patient days, for fiscal years ending in 1980 or after. The utilization will be calculated from the cost report or budget used to set the rates for the respective rate semester. For the initial FRVS rates established on October 1, 1985, cost reports received by AHCA by September 1, 1985 will be used.

Years earlier than 1980 shall have no adjustment made for utilization, but rather shall receive full credit for Medicaid utilization. The adjustment for fiscal years ending in 1980 or after shall be computed as follows: if the provider's cost report or budget shows less than 25-percent average Medicaid utilization for the cost reporting period, then no indexing of asset valuation shall be given; if 25 percent to 55 percent Medicaid utilization is computed, then the portion of the FCCI Index increase calculated in subsection 1.c. above shall be multiplied by the fraction equal to the actual utilization percent divided by 55 percent; if 55 percent or greater Medicaid utilization is computed, then full indexing using the portion of the FCCI Index increase calculated in subsection 1.c. above shall be given.

e. The asset valuation of the facility shall be indexed, according to 1.a.-1.d. above, from the date of entry into the Medicaid program, but not prior to January 1, 1972, to October 1, 1985. That asset valuation, subject to the cost per bed ceiling in g. below, shall be used to initiate FRVS property reimbursement at October 1, 1985. The change in the FCCI Index from September 1984 to March 1985 shall be used to project the FCCI Index for October 1, 1985, with no subsequent retroactive adjustment. The total asset valuation shall be divided into two components: 80 percent of the total asset valuation shall be amortized over 20 years, at the interest rate specified in f. below, to determine an amount which would pay principal and interest on an installment mortgage for that 80 percent of the asset valuation. For facilities beginning FRVS with a total initial principal balance of all current mortgages less than 60 percent of the indexed asset value, only the interest portion will be used in calculating the FRVS rate. The calculated interest plus principal or interest-only expense will be converted to a per diem by dividing by 90 percent of the maximum annual bed days of the facility. However, for newly-constructed facilities, the per diem calculated for that facility's first year of operation shall be the result of the principal and interest or interest-only expense divided by 75 percent of the maximum possible annual bed days. For those facilities that have put into service new beds for the first 12 months, the per diem shall be the result of the principal and interest or interest-only expense divided by a weighted average occupancy percentage greater than 75 percent but less than 90 percent of the maximum annual bed days if the addition of beds was 50 percent or more of the existing bed capacity, or the addition of 60 beds or more. A weighted average occupancy rate shall be computed, equal to the sum of:

1) The ratio of the new beds to total facility beds multiplied by 75 percent; and

2) The ratio of existing beds prior to the addition to total facility beds multiplied by 90 percent.

Property taxes (which excludes sales tax on lease payments) and insurance shall have a per diem calculated based upon actual historic cost and patient days as shown in the latest applicable cost report. Twenty percent of the asset valuation shall be used to calculate a return on equity for property-related equity per sections III.J. and K., and this return on equity shall be included as part of the FRVS rate. This will be converted to a per diem by dividing by 90 percent of the maximum annual bed days of the facility and by 75 percent of the maximum annual bed days for newly constructed facilities. Again, for those facilities that have put into service new beds for the first 12 months, and the addition of beds was 50 percent or more of the existing bed capacity, or the addition of 60 beds or more, the twenty percent will be converted to a per diem by dividing by a weighted average occupancy percentage greater than 75 percent but less than 90 percent of the maximum annual bed days as explained in 1) and 2) above.

f. (1) The interest rate used to amortize the 80 percent component of the asset valuation shall be the lower of: the owner's actual mortgage rate; the Chase Manhattan Bank's prime rate as of the date of the provider's loan commitment plus 2 percent for a variable-rate mortgage or plus 3 percent for a fixed mortgage rate; or 15 percent. If an owner has more than one outstanding debt instrument, the owner's actual rate used for this section shall be an average of the rates for all of the outstanding debt, weighted by the amount of the original principal of each debt instrument.

(2) No changes subsequent to establishment of the initial FRVS rate shall be made to the interest rate used to calculate the FRVS rate for providers with fixed-rate mortgages except as allowed per (5) below. For variable-rate mortgages, no changes shall be

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made unless the owner's interest rate changes according to (3) below.

(3) For the initial FRVS rates at October 1, 1985, the July 1, 1984 Chase prime shall be used for the "lesser of" comparison with the provider's actual rate. For those providers that received the July 1, 1984 Chase prime (13%) at June 30, 1996, (referenced above) beginning with the July 1, 1996, rate semester, these same providers shall have 12.5% used for the "lesser of" comparison on and after July 1, 1996. For rate semesters prior to July 1, 1996, these same providers shall remain at 13%. Providers shall be required to notify the Agency of their mortgage rate and any changes in their mortgage rate. Providers with variable mortgage rates shall submit current changes in their mortgage rates by October 15 and April 15 of each year to qualify for an adjustment to their FRVS rate on the following January 1 or July 1, respectively. At that time, the FRVS rate to be used for the next 6-month rate semester beginning January 1 or July 1 shall be determined using the most current mortgage rate, but not to exceed the October 15 or April 15, respectively, Chase-Manhattan prime plus 2 percent, or 15 percent.

(4) For facilities beginning the FRVS with a total initial principal balance of the mortgages less than 60 percent of their indexed asset value, the interest rate used to amortize the 80-percent component shall be the applicable Chase prime as detailed above, but not to exceed 15 percent. The amortization of prime

over 20 years shall be used to determine an amount which would pay interest on an installment mortgage for that 80-percent valuation. The prime rate used to initiate FRVS for providers with an initial principal balance of the mortgage less than 60 percent of their indexed asset value shall remain fixed for that provider in calculating future FRVS payments. However, if at some point in the future a provider finances capital assets such that the total original principal of debt instruments equals or exceeds 60 percent of the FRVS asset valuation, then the FRVS rate at the next rate semester shall be calculated using the interest rate per (1) above.

(5) An increase in the interest rate shall be allowed only if refinancing was necessary in order to finance the addition of new beds or to meet the final payments of the former debt instrument, or to consolidate existing debt excluding debt to owners; for example, in cases where balloon payments are due. If a new mortgage is secured at the addition of new beds and a prior mortgage is still in effect for the original facility, a weighted average mortgage rate shall be used in (1) above based upon mortgage amounts and interest rates of the various mortgages.

g. The standard, or ceiling, per-bed cost shall be established at $28,500.00 at October 1, 1985. Each existing facility at October 1, 1985, shall have its total capital assets valuation limited to that standard or the facility's computed asset valuation, whichever is less.

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The standard of $28,500.00 shall be indexed forward every 6 months based upon the most recently published 6-month full increase in the FCCI Index and shall be used to limit new construction costs in the future. New facilities shall be limited to the standard in effect 6 months prior to the date the facility was first put into service as a nursing home. A facility shall not receive an adjustment to account for increases in the standard at later dates.

h. A "hold harmless" provision shall be implemented to ensure that facilities existing and enrolled in the Medicaid program at October 1, 1985, do not receive reimbursement for property and return on equity or use allowance under the FRVS method less than the property cost reimbursement plus return on equity or use allowance given at September 30, 1985. If, after calculation of the FRVS rate, that reimbursement would be lower than depreciation plus interest costs under III.G. 3.-5. of this plan, a facility shall continue to be reimbursed depreciation plus interest according to III.G. 3.-5. of this plan until such time as the net difference in total payments between III.G. 3.-5. and FRVS is zero. Providers who wish to begin FRVS reimbursement that would result in payments less than the depreciation plus interest payments must notify the Agency in writing by December 2, 1985. Facilities with existing leases at October 1, 1985, shall be paid at the September 30, 1985 rate subject to III.G.2. until the current lease expires, at which time reimbursement shall begin under FRVS based on the owner's acquisition costs. Providers shall supply the Agency with the appropriate lessor's ownership costs to receive property

reimbursement after the current lease expires. No reimbursement for property-related costs shall be given to a leased facility subsequent to the expiration of the lease existing at
October 1, 1985, if the lessor's ownership costs are not adequately documented per Section III.G.4. of this plan.

i. Facilities existing and enrolled in the Medicaid program at October 1, 1985, shall be phased up to their FRVS rate in equal percent increments based upon the following schedule:

YEAR OF ENTRY INTO MEDICAID PROGRAM	YEARS TO FULL FAIR RENTAL VALUE FROM OCTOBER 1, 1985
December 31, 1971 or earlier	4
1972	5
1973	6
1974	7
1975	8
1976	8
1977	9
1978	9
1979	10
1980	10
1981	10
1982	10
1983	10
1984	10
January 1, 1985 through September 30, 1985	10
October 1, 1985 and after	-0-

FRVS rates shall be calculated according to subsections a. through g. above, but actual payments made during the applicable years of phase-in starting at October 1, 1985 shall be limited to the reimbursement rate effective as of September 30, 1985, exclusive of property taxes and insurance, plus a portion of the difference between that rate and the newly-computed FRVS rate. The portion of the difference allowed shall be a function of the number of years applicable to attaining full FRVS as shown above for various facility entry dates. A facility with a 4-year phase-in shall receive payments based on one-fourth of the difference for rates at October 1, 1985, January 1, 1986, and July 1, 1986; two-fourths of the difference for rates at January 1, 1987 and July 1, 1987; three-fourths of the difference for rates at January 1, 1988 and July 1, 1988; and four-fourths of the difference for rates at January 1, 1989 and thereafter. Similarly, a facility with an 8-year phase-in shall receive payments based on one-eighth of the difference for rates at October 1, 1985, January, 1, 1986 and July 1, 1986; two-eighths of the difference at January 1, 1987 and July 1, 1987; and so on, until attaining eight-eighths of the difference for rates at January 1, 1993 and after.

j. Subsequent to October 1, 1985, no adjustments to asset valuation shall be made for replacements of existing equipment for those facilities fully phased to FRVS payments. Adjustments at cost shall be allowed for capital improvements and additions. Capital additions of beds shall be subject to the per bed standard as computed in g. above that is in effect 6 months prior to the date the facility addition was first put in service as a nursing home. An adjustment to the FRVS rate may be requested if expenditures for capital additions and improvements totaling $0.40 per available bed day accrue in the cost reporting period utilized in establishing the per diem rate for the upcoming rate semester. Costs

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incurred during a cost reporting period that do not total $0.40 per available bed day shall not be included in the next cost reporting total. Thus, a 120-bed facility purchasing new equipment which does not replace any old equipment, and making capital improvements at a total unamortized purchase cost less than $17,520 during a twelve month cost reporting period shall not receive an adjustment to the FRVS rate in the coming rate semester or in any rate semester for those improvements or equipment. The cost of capital additions or improvements shall be established on the date new beds are put into service, the date of completion for capital improvements, and date of acquisition for equipment or other purchased assets and recognized for FRVS purposes so long as the total indexed asset valuation does not exceed the current per bed standard except as provided below:

(1)(a) Effective July 1, 1996, providers whose indexed asset valuation exceeded the per bed standard at June 30, 1996, shall be limited to their June 30, 1996, indexed value until the rate period in which their total asset value is less than the current per bed standard.

(1)(b) Providers that entered into a legally enforceable arms length agreement prior to July 1, 1996 for the construction or purchase loans of additions (excluding bed additions) or improvements which were not previously reported in a cost report shall have those additions or improvements included in their indexed asset value when the cost report that includes those additions or improvements is used to establish the reimbursement rate.

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When the above above mentioned additions or improvements cause the providers indexed asset value to exceed the current per bed standard, the provider shall be limited to that indexed asset value until the rate period in which that indexed asset value is less than the current per bed standard. Documentation of the legally enforceable, arms length agreement must be submitted with the cost report in which the additions or improvements are reported.

(2) In no other circumstances other than in (1)(a) and (1) (b) above shall a provider's total asset value under FRVS exceed their current per bed standard.

(3) Any cost associated with capital additions or improvements which are not recognized in the FRVS rate due to the per bed standard limitation, shall not be allowed in any future FRVS rate.

Adjustments made to FRVS rates due to capital additions or improvements shall be subject to retroactive adjustment based on audit findings made by AHCA. For facilities with 5 to 10 years remaining to full FRVS phase-in, 50 percent of replacement cost shall be reimbursed as a pass-through cost as depreciation and interest expense; if 4 years are remaining in the phase-in, 40 percent; if 3 years remaining, 30 percent; 2 years remaining, 20 percent; and 1 year remaining, 10 percent. This pass-through reimbursement shall be recaptured by AHCA in entirety if the facility undergoes a change of ownership.

2. FRVS for facilities entering the Medicaid program subsequent to October 1, 1985.

   a. The FRVS rate for facilities constructed subsequent to October 1, 1985 or existing facilities which enter the Medicaid program subsequent to October 1, 1985 shall be calculated as in 1.a.-h. and j. above. These facilities shall not be subject to any phase-in to the FRVS rate, and shall not have the option to elect reimbursement under Section III. G. 2. - 5.

   b. The ceiling that shall apply to facilities entering the program subsequent to October 1, 1985 shall be the ceiling in effect 6 months prior to the date the facility was first put into service as a nursing home. For facilities built prior to October 1, 1985 which enter the program subsequent to October 1, 1985, the ceiling at October 1, 1985 shall be deflated, using the FCCI Index, back to 6 months prior to the date the facility was first put into service as a nursing home.

3. Facilities that are currently participating in the Medicaid program but subsequently withdraw.

   a. Facilities that participate in the Medicaid program on or after October 1, 1985 but subsequently withdraw shall be subject to the same cost per bed ceiling that they were previously subject to should they decide to re-enter the program.

   b. At re-entry into the program, the indexing of asset valuation shall resume at the point where the facility was in the 40-year indexing curve per E.1.c. above when it withdrew from the program.

4. Property reimbursement for facilities upon change of ownership.

   a. Facilities that undergo a change of ownership on or after October 1, 1985 shall be reimbursed for property based upon the provisions contained in this section. It is the Agency's intent that, to the extent possible, the new provider shall receive essentially the same reimbursement for property costs as the previous

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provider. Therefore, unless stated otherwise in b. through f. below, the new provider's reimbursement shall be based on 1.-3. above.

b. If the previous owner of a facility was being paid depreciation plus interest under the hold harmless provision of 1.h. above, the new owner shall also receive depreciation plus interest per Section III.G. unless he requests the Agency, in writing, to begin FRVS payments instead. The FRVS depreciable basis shall remain the same as that of the previous owner; interest expense allowed, subject to the limitations in 1.f. above.

c. If the previous owner was being reimbursed under FRVS, the new owner shall also receive FRVS payment, entering at the point of phase-in and asset value indexing that the previous owner had reached. If the new owner's principal balance of all current mortgages is less that 60 percent of the indexed asset value, only the interest portion, at a rate determined in 1.f.(4), will be used in calculating the new owner's FRVS rate. If the new owner's principal balance of all current mortgages is equal to or greater than 60 percent of the indexed asset value, then the new owner shall be paid principal and interest on 80 percent of the total asset valuation amortized over 20 years at the interest rate specified in 1.f.(1) above. In addition, the new owner's interest rate shall be used in lieu of the original owner's interest rate in accordance with the limitations described at 1.f.(1). above. Any credits accrued by the previous owner for indexing as described in 1.b. above shall be applied to the new owner.

d. The return on equity or use allowance shall be calculated as per 1.e. above. A per diem shall be calculated for property taxes and insurance, based upon actual historic cost and patient days shown in the latest applicable cost report, as per 1.e. above.

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e. The new provider shall be subject to the recapture provisions in Section III.H. of this plan. The new provider's cost basis shall be computed per III.G.3. of this plan.

f. Reimbursement to a new provider for costs of replacement equipment shall be governed by the same provisions affecting the previous provider. The new provider shall enter the phase-in schedule at the point reached by the previous provider at the change of ownership, and shall be reimbursed per 1.j. above for replacement costs.

5. Capital costs which require certificate of need (CON) approval shall be allowed for reimbursement purposes only if the capital expenditure receives approval from the CON office. All cost overruns which require CON approval must also be approved in order to qualify for reimbursement. This section will apply to all providers with Medicaid certification effective on or after July 1, 1991.

	Example 1	**Example 2**
New Facility Cost	$3.0 Million	$4.0 Million
CON Approval	$2.8 Million	$3.0 Million
Medicaid Allowable Cost	$2.5 Million	$3.5 Million
Reimbursable Cost	$2.5 Million	$3.0 Million

Total capital expenditures which are greater than the total amount approved by CON shall not be recognized for reimbursement purposes. In the example above, the reimbursable cost which is considered in rate calculations, is the lower of the new facility cost, CON approval, or the Medicaid allowable cost.

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